

Message Text

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ACTION EA-10

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TAGS: ETRD, EWWT, EPAP, EMIN, EALR, PFOR, CH, MY, SN

SUBJECT: SINO-MALAYSIAN TRADE AND ECONOMIC RELATIONS

REF: A. KUALA LUMPUR 2501 (NOTAL) B. HONG KONG A-145

SUMMARY: THE FOLLOWING SUMMARIZES THE MAIN POINTS AND THE CONCLUSIONS OF HONG KONG AIRGRAM A-145 (REF. B) ON SINO-MALAYSIAN TRADE AND ECONOMIC RELATIONS. END SUMMARY

1. AS ALL NATIONS HAVE, THE PRC HAS A CONFLICT BETWEEN ITS SPECIFIC DESIRE FOR GOOD FOREIGN RELATIONS WITH ANOTHER COUNTRY, AND ITS OTHER GENERAL POLICIES THAT IMPINGE ON THAT BILATERAL RELATIONSHIP. THIS CONFLICT, ALBEIT AT A LOW LEVEL OF VISIBILITY, SEEMS ESPECIALLY EVIDENT IN PRC RELATIONS WITH MALAYSIA, A COUNTRY WITH SPECIAL RACIAL, POLITICAL, AND ECONOMIC CHARACTERISTICS AS REGARDS THE PRC. THOUGH THESE CONFLICTS IN SINO-MALAYSIAN ECONOMIC RELATIONS ARE UNLIKELY TO LEAD TO SERIOUS
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DISRUPTIONS IN SINO-MALAYSIAN POLITICAL RELATIONS, THEY WILL

PROBABLY CUMULATIVELY TAKE THE BLOOM OFF THAT POLITICAL RELATIONSHIP.

2. MALAYSIAN POLICIES REGARDING RUBBER EXPORTS -- ESPECIALLY THE EFFORT TO CUT OUT SINGAPORE -- CONFLICT WITH THE PRC'S TRADITIONAL IMPORT PRACTICES. THE PRC RESPONSE TO THE MALAYSIAN RUBBER DELEGATION WHICH RECENTLY VISITED PEKING (REF. A) WAS TO MAKE THE PROPER PUBLIC RELATIONS NOISES, BUT PRIVATELY TO CONTINUE TO MOVE AT ITS OWN PACE. THE MALAYSIAN RUBBER DELEGATION ALSO SOUGHT INCREASED PRC RUBBER PURCHASES THROUGH CONCLUSION OF A LONG-TERM RUBBER PURCHASE AGREEMENT. THE PRC RESPONSE WAS WEAKLY TO PLEDGE TO BUY "AS MUCH AS" 40,000 METRIC TONS OF RUBBER OVER "THE NEXT FEW MONTHS." THE PRC GAVE NO INDICATION THAT IT WAS "INCREASING" THE LEVEL OF SINO-MALAYSIAN TRADE, AND APPEARED MERELY TO BE ANNOUNCING PREVIOUSLY DECIDED PURCHASE PLANS. THE OUTLOOK FOR AN INCREASE IN THE LEVEL OF PRC PURCHASES OF MALAYSIAN NATURAL RUBBER IS DIM, DUE TO INCREASED PRC DOMESTIC PRODUCTION OF NATURAL RUBBER, POSSIBLE IMPORTS FROM SOUTH VIETNAM AND CAMBODIA, AND MOST IMPORTANTLY, THE TRIPLING OF PRC DOMESTIC PRODUCTION OF SYNTHETIC RUBBER.

3. THE MALAYSIAN DELEGATION DID SUCCEED, HOWEVER, IN SECURING PRC AGREEMENT TO PRC SHIPS CARRYING MALAYSIAN RUBBER TO EUROPE ON A SPACE AVAILABLE BASIS. AS THE PRC ITSELF MOVES ONLY ONE-THIRD OF ITS OWN FOREIGN TRADE IN ITS OWN VESSELS, IT IS UNCERTAIN JUST HOW HELPFUL WILL BE THIS PRC RESPONSE TO THE MALAYSIAN REQUEST FOR ASSISTANCE IN COMBATTING FREIGHT CONFERENCE RATES.

4. A POTENTIALLY MORE SERIOUS CONFLICT MAY ARISE OVER TIN EXPORTS AS THE PRC INCREASES ITS TIN SALES TO GAIN NEEDED FOREIGN EXCHANGE AND IF MALAYSIAN TIN EXPORTS DECLINE. IN THIS CONNECTION, A CONFLICT INTERNAL TO PRC POLICY COULD DEVELOP IF THE PRC'S FULSOME PROPAGANDA PRAISE IN GENERAL FOR LDC RAW MATERIALS PRODUCERS' ASSOCIATIONS ENCOURAGES THE GOM PUBLICLY TO PRESSURE THE PRC EITHER TO JOIN OR AT LEAST TO COOPERATE WITH THE INTERNATIONAL TIN COUNCIL WHOSE INVITATIONS THE PRC HAS, IN ACCORDANCE WITH ITS OWN SPECIFIC POLICIES ON JOINING SUCH ORGANIZATIONS, SO FAR DECLINED.

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5. CONCLUSION AT PRESENT THE PRC FACES CERTAIN PROBLEMS IN ITS TRADE AND ECONOMIC RELATIONS WITH MALAYSIA. ON THE DIRECT PURCHASE ISSUE, THOUGH THE PRC IS MOVING MORE SLOWLY THAN THE GOM APPARENTLY WOULD PREFER, ITS MOVEMENT IS IN THE DESIRED DIRECTION, AND IN TIME THIS PROBLEM WILL PROBABLY DISAPPEAR. THE PRC'S APPARENT DESIRE TO CONTROL ITS OWN RUBBER PURCHASES OUTWEIGHS THE POSSIBILITY OF GAINING PRESTIGE

BY SIGNING A LONG-TERM RUBBER COMMODITY AGREEMENT WITH MALAYSIA. WHILE THE GOM IS PROBABLY DISAPPOINTED, IT IS DIFFICULT TO FUSS ABOUT LACK OF A LONG-TERM AGREEMENT WHEN PRESENT PURCHASES ARE STILL SUBSTANTIAL BUT IT MAY BECOME A BIGGER BILATERAL ISSUE IF PRC RUBBER PURCHASES FROM MALAYSIA START DECLINING FURTHER WHILE PRC CONSUMER GOODS SALES THERE CONTINUE RISING. THE SUBSTANTIAL BILATERAL TRADE SURPLUS IN PEKING'S FAVOR HAS ATTRACTED NOTICE IN KUALA LUMPUR, AND PRC PRESS RELATIONS-TYPE PUFFERY ABOUT TRADE POTENTIALS IS UNLIKELY TO KEEP MALAYSIAN HOPES INFLATED FOREVER. THE SHIPPING AGREEMENT MAY BE A REAL ACHIEVEMENT FOR THE MALAYSIANS, BUT IT REMAINS TO BE SEEN WHETHER THE PRC HAS THE ABILITY TO MEET THE MRELB'S EXPECTATIONS ON THIS SCORE. OVERALL, IT SEEMS THAT OVER THE PAST SEVERAL YEARS THE PACE OF REAL (AND NOT JUST INFLATIONARY) FORWARD MOVEMENT IN SINO-MALAYSIAN TRADE RELATIONS HAS BEEN SLOW.

6. IN THE FUTURE, THE ISSUE OF PRC TIN SALES, THOUGH A SLEEPER NOW, HAS THE POTENTIAL OF BECOMING A REAL BONE OF CONTENTION BETWEEN THE TWO COUNTRIES. CONTINUING WRANGLING WITH THE U.S. GOVERNMENT OVER TIN DISPOSALS MAY HAVE SENSITIZED THE GOM. THUS, IT IS PERHAPS POSSIBLE THAT INCREASED PRC TIN SALES MIGHT QUICKLY LEAD TO INCREASED GOM PROTESTS TO THE PRC'S METALS EXPORT CORPORATION AND TO HIGHER PRC OFFICIALS. AND IT IS ON THIS POINT THAT THE GOM, IN A CONFLICT OVER TIN SALES WITH THE PRC, HAS THE OPPORTUNITY TO SEIZE ON A CONFLICT WITHIN PRC FOREIGN ECONOMIC POLICY BETWEEN THE PRC'S DESIRE FOR COMPLETE SOVEREIGNTY AND ITS STRIDENT SUPPORT OF THE THIRD WORLD RAW MATERIALS PRODUCERS ASSOCIATIONS.

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